

ERISA: Does My Plan Need To Be Wrapped?



Here's a simple test to determine the answer:

The DOL has a five-part test which exempts insured arrangements if:

1. There is no employer contribution; and,
2. Employee participation is completely voluntary; and,
3. Employer receives no compensation from the insurer; and,
4. Employer's involvement is limited to permitting the insurer to publicize the program, collecting premiums through payroll deduction, and remitting premiums to the insurer by single check; and,
5. Employer does not endorse the program.

The final requirement is what trips up most employers. DOL considers the following actions to constitute endorsement:

1. Putting employer's names on materials;
2. Referring to the plan as the employer's plan;
3. Encouraging employees to participate;
4. Selecting and negotiating with insurers;
5. Assisting employees with claims or disputes;
6. Allowing payment of premiums with pre-tax dollars through cafeteria plans.

If you determine that your plan needs to be wrapped, and you have multiple plans, next you must decide whether or not to wrap your multiple plans together under one wrap known as an "Umbrella Wrap" or "Mega-Wrap" document. Here are some things to consider:

1. Plans wrapped together must have:
 - a. Same effective date
 - b. Same waiting periods
 - c. Same eligible employees
2. Plans wrapped together must share the same eligibility language:
 - a. Dependent definition
 - b. Group of employees eligible for all plans
 - c. Minimum age to enroll
 - d. Minimum hours worked to be eligible
3. How many different participants are in the plans?

When wrapping two plans you count the "belly buttons" in the plan as a whole. Wrapping together a medical plan with 95 enrolled and a dental plan with 45 enrolled (35 of whom are not also enrolled in the medical plan) creates a wrapped plan with 130 "belly buttons," triggering the requirement to file a Form 5500 when one was not necessary before.

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